



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

April 30, 2004

The Honorable Michael S. Schwartz  
Chairman  
Railroad Retirement Board  
844 North Rush Street  
Chicago, IL 60611-2092

Dear Mr. Schwartz:

I am pleased to submit the Semiannual Report to the Congress on the activities of the Office of Inspector General (OIG) for the period October 1, 2003 through March 31, 2004. The report is submitted in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

This report provides descriptions of OIG reviews, audits and investigations performed during this semiannual reporting period. We continued to focus audit resources on financial management issues and information system security activities. Our criminal investigators achieved 24 convictions, 16 indictments and informations, and \$946,519 in recoveries, restitutions, fines, civil damages and penalties.

We sincerely appreciate the continued assistance and cooperation extended to our auditors and special agents during the performance of their reviews and investigations.

Sincerely,

A handwritten signature in black ink that reads "Martin J. Dickman". The signature is written in a cursive style with a long horizontal flourish at the end.

Martin J. Dickman  
Inspector General

Enclosure

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# ***EXECUTIVE SUMMARY***

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This semiannual report summarizes the activities and accomplishments of the Office of Inspector General (OIG) for the period October 1, 2003 through March 31, 2004.

## **Audit Activities**

During this six month reporting period, the OIG continued to focus its resources on financial management issues and the Railroad Retirement Board's (RRB) information system security activities. OIG personnel completed the audit of the Fiscal Year (FY) 2003 financial statements, citing the agency's overall control environment and information system security as material weaknesses. The OIG also identified three serious management challenges facing the agency: asset stewardship, managing for change, and information technology security.

## **Operational Issues**

The OIG also provided management with a briefing paper on improper payments that summarized past oversight activities, previous recommendations for improvement, and planned coverage.

The OIG recommended that the Board Members revise agency policy concerning tier 1 payments to incarcerated felons and fugitives. The Social Security Act (SSA) denies benefits to incarcerated felons and certain fugitive felons or probation violators. Because the RRB applies the SSA and its regulations in the computation of tier 1 benefits, the OIG believes that the agency should also follow SSA provisions that prevent payment of tier 1 benefits to incarcerated and fugitive felons.

During this period, the OIG also endorsed the agency's position concerning a legislative change in the Railroad Retirement and Survivors' Improvement Act that requires the appointment of an independent disbursing agent to pay benefits. The

Department of the Treasury currently serves as the payment agent for the RRB. If a legislative change is not enacted, the RRB will incur substantial additional costs for payment to an independent agent.

### **Investigative Accomplishments**

During the past six months, the Office of Investigations (OI) achieved 24 convictions, 16 indictments and informations, and \$946,519 in recoveries, restitutions, fines, civil damages, and penalties.

OI completed a review of an employer status determination issued by the Board Members (Board) for a temporary railroad service employer. The employer was originally declared a covered employer, but after reviewing a reconsideration request, the Board issued a decision that the company was not an employer under the Railroad Retirement and Railroad Unemployment Insurance Acts. After reviewing the information submitted in support of the reconsideration request, OI provided recommendations to management for handling service and compensation reporting for temporary train operators.

OI also identified weaknesses in the enforcement of building access procedures as the result of an investigation related to the theft of government property from the RRB's headquarters building. Recommendations were provided to agency management to strengthen security procedures in the building.

***All reports are available on our website: <http://www.rrb.gov/oig/Rrboig.htm>***

# **I N T R O D U C T I O N**

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## ***Railroad Retirement Board***

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government that is headed by a three member Board appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon the recommendation of railroad employers, one is appointed upon the recommendation of railroad labor organizations, and the third, who is the Chairman, is appointed to represent the public interest.

The agency administers comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts. The RRB also has administrative responsibilities under the Social Security Act for certain benefit payments and Medicare coverage for railroad workers.

During FY 2003, the RRB paid \$8.9 billion in retirement and survivor benefits to approximately 666,000 beneficiaries, while net unemployment and sickness insurance benefits of \$94 million were paid to almost 37,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, Palmetto GBA. The carrier made payments totaling \$845 million to provide medical insurance benefits for 568,000 beneficiaries.

## ***Office of Inspector General***

The Office of Inspector General (OIG) has the responsibility for promoting economy, efficiency and effectiveness in the programs of the Railroad Retirement Board. The office is also charged with the detection, prevention and elimination of fraud, waste and abuse in agency operations. To accomplish its mission, the OIG conducts audits, management reviews and investigations.

The Railroad Retirement Solvency Act of 1983 established the Office of Inspector General at the Railroad Retirement Board by naming the agency as “one of such establishments” identified under Section 2 of the Inspector General Act of 1978. The Inspector General Act Amendments of 1988 added the RRB to the list of agencies covered by the Inspector General Act.

In FY 2004, the OIG has 53 employees assigned to three operational components: the immediate office of the Inspector General, the Office of Audit, and the Office of Investigations. The office conducts operations from two locations: the headquarters of the Railroad Retirement Board in Chicago, Illinois, and an investigative field office in Philadelphia, Pennsylvania.

# **O F F I C E   O F   A U D I T**

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The Office of Audit (OA) conducts audits and reviews to promote economy, efficiency, and effectiveness in the administration of RRB programs, and to detect and prevent waste, fraud, and abuse in such programs. Through the Inspector General, the office ensures that the Board Members and Congress are informed of current and potential problems in the RRB's programs and operations, and advised of recommended improvements, as well as the status of corrective actions. OA examines programmatic, financial, and administrative aspects of RRB operations.

During this semiannual reporting period, OA focused on financial management issues and the RRB's information system security activities. Auditors completed the audit of the agency's FY 2003 financial statements and identified serious management challenges at the RRB. OA also continued to work closely with RRB information systems staff to ensure progress continued on implementing corrective actions to strengthen the agency's information security systems.

Operational issues were also addressed. Auditors prepared a briefing paper on the OIG's oversight of improper payments that discussed the magnitude and causes of improper payments in the RRA and RUIA programs. The document included a description of OIG recommendations for improved agency performance. Two other areas, the appointment of an independent disbursing agent and benefit payments to incarcerated and fugitive felons, were also reviewed.

Summaries of these activities follow.

## **AUDIT OF THE FY 2003 FINANCIAL STATEMENTS**

On January 23, 2004, the Railroad Retirement Board issued its FY 2003 Performance and Accountability Report that summarized the agency's accomplishments in administering the programs provided by the Railroad Retirement Act and the Railroad Unemployment Insurance Act.

Included in this report were the results of the OIG audit of the FY 2003 financial statements and a discussion of the serious management challenges facing the agency that have been identified by the OIG.

OIG auditors concluded the audit of the Railroad Retirement Board's FY 2003 financial statements, related internal controls and compliance with laws and regulations. Auditors reported that the principal financial statements presented fairly the financial position of the RRB as of September 30, 2003 and 2002. They also cited two material weaknesses, the overall control environment and the agency's information system security, that were disclosed during their evaluation of internal controls. Tests of agency compliance with certain provisions of laws and regulations disclosed no instances of non-compliance.

### **Material Weaknesses**

#### **Overall Control Environment**

As in each financial statement audit since FY 1993, auditors continued to classify the RRB's overall control environment as a material weakness. They stated this weakness in internal control results from an organizational structure that does not provide proactive top-down leadership in addressing financial reporting issues. The managers of RRB operating components do not seek assistance across organizational lines to resolve problems related to financial accounting and reporting.

Auditors also noted that the Office of Management and Budget has established a timetable for acceleration of financial statement reporting in the Federal government. The RRB will be required to submit audited financial statements for FY 2004 by November 15, 2004. In the opinion of the auditors, this new timetable will be a major challenge to existing agency resources.

Auditors stated that the RRB's successful compliance with the accelerated reporting deadline will be considered as evidence of the adequacy of the agency's overall control environment with respect to financial statement reporting only.

As in previous years, RRB management disagreed with the auditors' assessment of the overall control environment, and did not report this issue as a material weakness in the agency's report on internal control and financial systems, as required by the Federal Managers' Financial Integrity Act (FMFIA). Management believes sufficient corrective action has been taken.

### **Information System Security**

During FYs 2001-2003, OIG auditors performed evaluations of information security in accordance with the Government Information Security Reform Act and the Federal Information Security Management Act. These reviews identified weaknesses in most areas of the RRB's information security program. Auditors identified the program as a source of material weakness in internal control over financial reporting as a result of significant deficiencies in program management and access controls.

The RRB has initiated actions to correct identified weaknesses and to strengthen information security. However, the most significant problems remain. Program management continues to be negatively impacted by the lack of training of key personnel. Access controls are not effective because of weaknesses in account management in both the mainframe and end-user computer environments.

RRB management did report this material weakness in the agency's information security program in the report on internal control and financial systems, as required by the FMFIA.

## **SERIOUS MANAGEMENT CHALLENGES**

The OIG has identified three serious management challenges facing the RRB: Asset Stewardship, Managing for Change, and Information Technology Security.

## **Asset Stewardship**

In FY 2002, the OIG raised questions concerning the adequacy of oversight provided to the National Railroad Retirement Investment Trust (NRRIT). The Railroad Retirement and Survivors' Improvement Act of 2001 established this body to invest funds not needed immediately to pay benefits under the Railroad Retirement Act. By the close of FY 2003, the RRB had transferred over \$20 billion to the NRRIT.

The NRRIT must submit only annual audited financial statements, and is not required to provide interim reports, details of holdings or investment strategy outside the annual report. Under the legislation, the RRB may bring civil action against the NRRIT if any provisions of the RRA are violated. The OIG has urged RRB management to take a more active interest in NRRIT activities so that it can assess whether the Trustees are fulfilling their fiduciary responsibilities.

Management continues to maintain its largely passive relationship with NRRIT.

## **Managing for Change**

The OIG has expressed serious concerns about the continued viability of the RRB as a business entity, and has recommended that management be proactive in redesigning the service delivery model for the retirement and survivor benefit programs. Because the agency serves a declining number of railroad workers and beneficiaries, the OIG has urged the agency to transform itself to meet the challenges of providing efficient service delivery to a declining number of railroad workers and beneficiaries. Agency management has generally disregarded OIG recommendations in this area.

## **Information Technology Security**

The OIG has cited the agency with material weaknesses that have resulted from significant deficiencies in access controls in both the mainframe and end-user computing environments, and in the training provided to staff with significant security responsibilities. Agency management has completed corrective actions for many recommendations in this area, but has not eliminated all the deficiencies

in training and access controls that were the basis for the original finding of material weakness.

As the RRB expands internet communication services with beneficiaries and railroad employers, management will face additional challenges in developing and maintaining a strong information security position.

Management has acknowledged this material weakness. Most of the recommendations for improved information security contained in evaluations by the OIG or technical specialists under contract to the OIG have been implemented or are scheduled for implementation in FY 2004. The RRB plans to eliminate the information system security material weakness in FY 2004.

The OIG continues to closely monitor the implementation of recommendations for corrective action for improved information security at the agency. Of 132 items issued, agency management has rejected 11 and completed action for 80. The majority of the remaining recommended actions are scheduled for completion by the end of the calendar year.

## **OPERATIONAL ISSUES**

### **Oversight of Improper Payments**

During this reporting period, the Office of Inspector General provided RRB management with a briefing paper on the issue of improper payments, an area that the OIG has continually targeted for oversight.

The OIG concluded that underlying legislation and the self-reporting responsibilities imposed on beneficiaries cause the RRA and RUIA benefit programs to be at high risk of improper payments through error, lack of management oversight, and fraud. Improper payments typically occur as the result of out-of-date information on the beneficiary's personal status such as death, divorce, remarriage or recovery from disability, and adjudicative error, mainly in older cases.

The paper provided a summary of all audit recommendations for improvement in payment accuracy, overpayment recognition and debt recovery operations, and

quality assurance activities issued from FY 1998 through FY 2003. Agency management has implemented or plans to implement 50 of the 56 OIG recommendations.

The OIG also outlined planned coverage through the performance of audits, evaluations and inspections that address agency quality assurance activities, fraud prevention in emerging information technology, and payment accuracy, including overpayment recognition and debt recovery. The OIG's Office of Investigations will continue to identify and prosecute fraud in the RRA and RUIA programs.

### **Appointment of an Independent Disbursing Agent**

The Railroad Retirement and Survivors' Improvement Act (RRSIA), enacted on December 21, 2001, contains a provision that provides for the appointment of an independent disbursing agent to pay benefits but includes no timetable for implementation. At present, the Department of the Treasury serves as the payment agent for the RRB. Agency officials have calculated that using an independent disbursing agent will result in substantial additional costs - from the current cost of \$800,000 to approximately \$2.9 million a year. As a result, the RRB submitted proposed legislation to the Congress to remove the non-governmental disbursement agent provision.

On November 19, 2003, the Inspector General endorsed the RRB's position in a letter to the Office of Management and Budget. He stated that there is no clear cut benefit to the expenditure that would justify the additional expenses to be borne by the trust funds. In addition, the current arrangement with the Department of the Treasury provides greater flexibility to minimize the impact of erroneous benefits payments.

As of March 31, 2004, no action had been taken on the proposed legislation.

### **Benefit Payments to Incarcerated and Fugitive Felons**

During this reporting period, the OIG recommended that the agency's Board Members revise agency policy for tier 1 payments to incarcerated felons and fugitives. Tier 1 is that portion of an employee annuity that is based on combined railroad retirement and social security credits, calculated under social security

formulas, and approximates what social security would pay if railroad work was covered by that system.

In 1983, the Social Security Act (SSA) was amended to deny benefits to individuals imprisoned for felony convictions. The RRB's General Counsel determined this provision was applicable, and the agency then denied tier 1 benefits to imprisoned RRB beneficiaries. In January 1995, the agency reversed its policy on such payments following an appeal by an incarcerated felon. The SSA was also recently amended to deny benefits to certain fugitive felons or probation violators. Therefore, the RRB should withhold benefit payments to these individuals.

Because the RRB applies the SSA and its regulations in the computation of tier 1 benefits, we recommended that the agency also follow the SSA and its regulations that prevent payment of tier 1 benefits to incarcerated and fugitive felons. Such action would send a consistent message from the government for zero tolerance for fraud and abuse. The matter is currently under consideration by agency management.

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OA also issued an assessment of the agency's procurement activities for compliance with agency policies and procedures as well as Federal regulations.

### **Review of the Railroad Retirement Board's Acquisition Process Contracts for Services**

The Federal Acquisition Regulations (FAR) provide uniform policies for the acquisition of supplies and services by executive agencies. The Federal Supply Schedule (FSS) program provides Federal agencies with a simplified process for obtaining commonly used products and services at prices associated with volume buying. The General Services Administration (GSA) manages this program and awards contracts to multiple companies supplying comparable products and services. Any Federal agency can then place orders with FSS contractors.

The RRB uses the FSS program to increase the efficiency of agency procurement. The agency utilizes contracts for goods and services that it cannot perform in-

house or that external vendors can perform more effectively and efficiently. During FYs 2001 and 2002, the RRB contracted for \$12.3 million and \$9.4 million, respectively, for such services.

OIG auditors performed this review to assess the RRB's compliance with the applicable Federal regulations as well as internal agency policies and procedures for procurement. They determined that agency actions did not: (1) always comply with applicable regulations, (2) consistently seek competitive quotations for services, (3) provide statements of work to vendors, or (4) adequately review price and proposal details prior to making a contract decision.

Auditors identified specific deficiencies related to the purchase of information technology services that occurred because agency contract officials incorrectly believed that the General Services Administration had completed all necessary competition and price reasonableness determinations. They relied on FAR guidelines but did not consider the applicable GSA special ordering procedures. The RRB did not have sufficient procedures that summarized the requirements for requesting and completing the procurement of goods and services from FSS contractors. In addition, procurement division personnel were excluded from initial contacts and discussions of prices between program managers and potential contractors.

OIG auditors recommended that managers revise administrative procedures related to procurement from FSS contractors, provide training to procurement personnel, and issue a directive that emphasizes the need to contact procurement personnel before initiating action involving any potential procurement. Management agreed to procedural revisions and has incorporated the recommended changes into the appropriate administrative circular. Managers will also provide training on the use of Federal Supply Schedules and GSA special ordering procedures. Program officials did not agree to provide a new directive, citing the issuance of a memorandum in May 2003 that addressed the weakness.

## **AUDITS: MANAGEMENT DECISIONS AND IMPLEMENTATION**

The Office of Inspector General maintains the open audit follow-up system to track the status of corrective actions for all audit recommendations. Office of Management and Budget Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit recommendations.

### **Management Decisions for Recommendations**

Requiring a management decision on October 1, 2003	0
Pending management decisions for new recommendations	0
Management decisions for previous recommendations	<u>0</u>
Recommendations pending a management decision on March 31, 2004	0

### **Corrective Actions**

Recommendations requiring action on October 1, 2003	96
Recommendations issued during this period	3
Corrective actions completed during the period	<u>27</u>
Final actions pending on March 31, 2004	72

# **O F F I C E O F I N V E S T I G A T I O N S**

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The Office of Investigations (OI) focuses on RRB benefit program fraud. OI's primary objective is to identify and investigate cases of waste, fraud and abuse in RRB programs and refer them for prosecution and monetary recovery action. Through its investigations, OI also seeks to prevent and/or deter program fraud. In order to maximize the effect of its resources, OI continues to pursue cooperative investigative activities and coordination with other Inspectors General and law enforcement agencies, which include the Social Security Administration-Office of Inspector General, the Office of Personnel Management-Office of Inspector General, the Federal Bureau of Investigation (FBI), the U.S. Secret Service, the Internal Revenue Service, and the Postal Inspection Service.

## **Railroad Employer Coverage Issue**

During this reporting period, OI completed a review of an employer status determination issued by the Board Members (Board) in May 2003 for a temporary railroad service employer. The Board ruled the employer to be covered by the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). The company then requested a reconsideration of the determination and submitted sample contracts that it had entered into with two railroads. The contracts indicated that the railroads would pay temporary train operators and submit the required railroad retirement taxes and reports to the RRB. In September 2003, the Board determined that the company was acting as a temporary employment agency for the railroads, and issued a decision stating that the company was not an employer under the Acts administered by the RRB.

Upon receipt of the Board's decision, OI reviewed the information submitted by the temporary service employer as well as reports submitted by the client railroads. In its initial request for a coverage determination, the employer had indicated it would pay contractors performing the railroad work. In its reconsideration request, the employer indicated the client railroads would pay the temporary train operators a

daily service fee. OI also reviewed invoices submitted that indicated that the service pays the temporary operators a fee of \$50 a day for any rest days; however, the fees were not included in compensation reported to the RRB by the client railroads. Failure to include these monies as creditable compensation will result in disparate treatment of the temporary train operators.

Based on its review, OI issued several recommendations to the Board for handling service and compensation reporting for temporary train operators. Implementation of the recommended actions will ensure the client railroads are in compliance with all applicable regulations. The Board is currently reviewing the recommendations but has not taken action to implement them.

### **RRB Headquarters Security**

As the result of an investigation related to the theft of government property from the RRB's headquarters building, OI identified weaknesses in the enforcement of the agency's building access procedures for non-business hours. Special agents identified an incident in which a visitor, in the company of an RRB employee, signed in as an employee during a weekend day.

Current policies require that agency employees entering the building must have proper employee identification to be admitted. All visitors must present valid identification or a letter from an agency official confirming they have a need to enter the building, and must be escorted by authorized agency staff while they are in the building. After normal business hours and on weekends, only authorized employees may enter the building from outside using card keys and must sign the employee log at the security desk. Any visitor must follow the same procedures that are in place for normal business hours.

OI provided recommendations to agency management to strengthen security and to eliminate the potential for similar violations in the future. The RRB's Director of Administration concurred with the recommendations and directed the implementation of new procedures to improve building security operations.

## **RRB Actions in Response to an OIG Systemic Implication Report**

In the Semiannual Report to Congress for the period ending September 30, 2002, OI reported on a systemic issue concerning annuitants who returned to work in the railroad industry and continued to be paid an annuity by the RRB. Regulations do not permit annuitants to receive an annuity for any month in which they return to service for a railroad employer. Although the RRB's automated systems can identify annuitants who are reported as returning to railroad service, OI identified three annuitants who were not detected and were overpaid approximately \$300,000 in annuities over a nine year period. OI advised the agency that there may be weaknesses in the agency's systems that prevent the timely detection of individuals who return to railroad service and continue to receive their annuities.

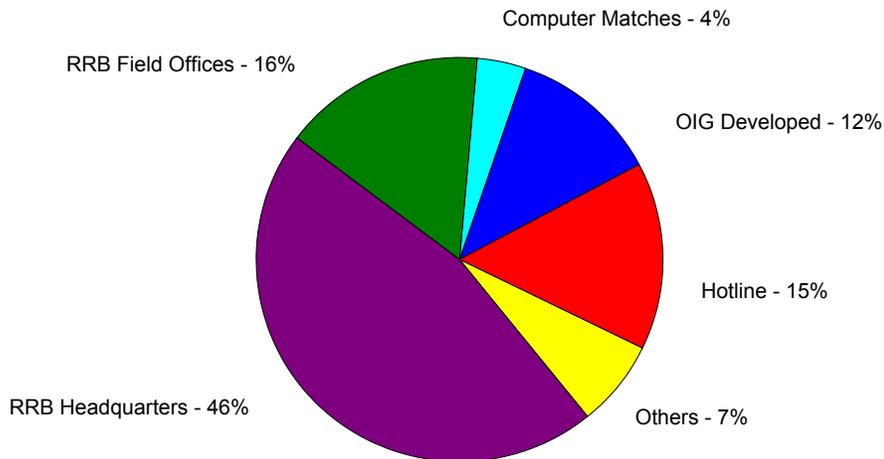
As a result of the information developed by OI, agency program officials conducted a review of the three cases and concluded that a more extensive review of the agency's processes and systems was warranted. The more thorough review identified weaknesses in both automated systems and procedures that prevent the detection of some of these cases. The agency's study also revealed that an additional 751 annuitants may have been overpaid as a result of these weaknesses.

During this semiannual period, the agency reported that new business rules and procedural changes have been drafted to address cases in which annuitants return to service in the railroad industry. After these business rules have been finalized, the agency will initiate system programming changes to address this issue.

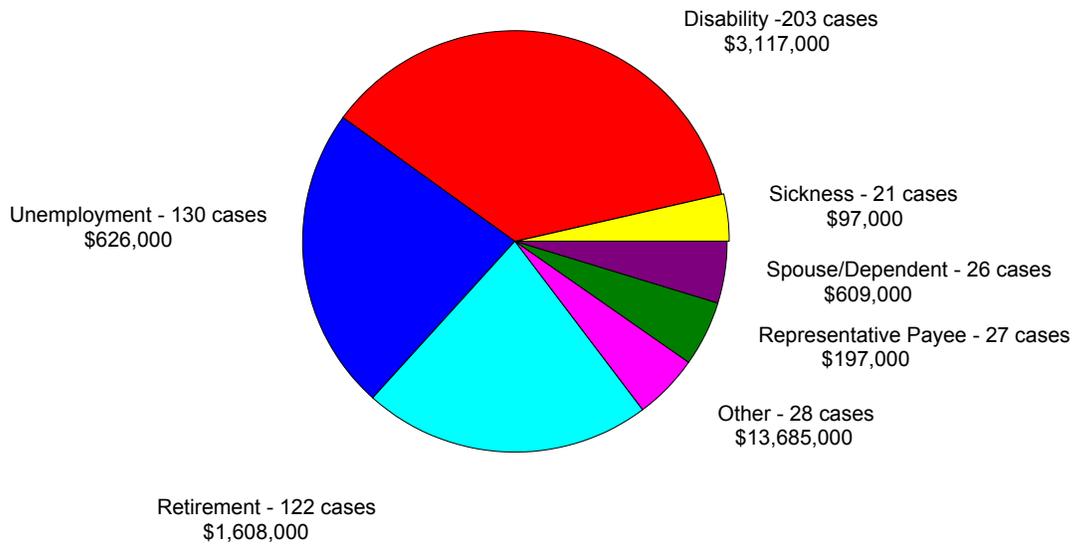
<b>INVESTIGATIVE ACCOMPLISHMENTS</b>	<b>10/01/03 - 03/31/04</b>
Convictions	24
Civil Judgements	17
Indictments/Informations	16
Investigative Recoveries	\$ 254,501
Restitutions and Fines	\$ 448,558
Civil Damages and Penalties	\$ 243,460
Potential Economic Loss Prevented (PELP)	\$ 189,845
Community Service Hours	600
Disciplinary/Administrative Action	0
Civil Complaints	13
Criminal Complaints	0
Arrests	1
Subpoena Service: Inspector General	12
Federal Grand Jury	85
Trial	0
U.S. Attorney Referrals	131

## INVESTIGATIVE CASES

During this semiannual period, OI opened 137 investigations and closed 118 cases. The major sources of case referrals are illustrated below.



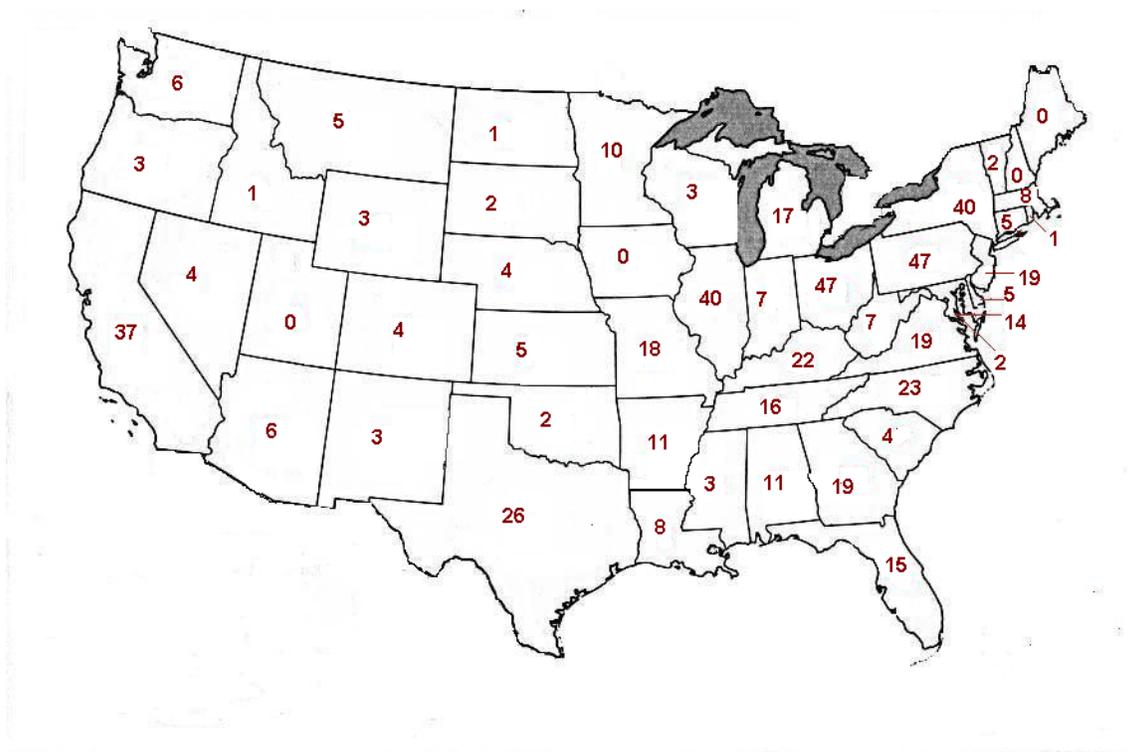
OI's current caseload totals 557 criminal matters, representing approximately \$19.9 million in fraud against the RRB.



## DISTRIBUTION OF CASES

The Office of Investigations (OI) conducts its investigations throughout the United States in response to complaints or allegations regarding violations of Federal law.

The map below indicates the number of open investigations that OI currently has in each state; there are no open cases in Alaska or Hawaii. Two additional investigations are underway in Canada.



## **REPRESENTATIVE INVESTIGATIONS**

### **Retirement Benefit Investigations**

RRB retirement fraud typically involves the theft and fraudulent cashing of U.S. Treasury checks, or the illicit conversion of U.S. Treasury electronic fund transfers, by someone other than the authorized RRB annuitant. During this reporting period, OI obtained eight convictions and two civil judgements for retirement fraud. Defendants received 18 years probation, seven months house arrest and were ordered to perform 250 hours of community service. They were also ordered to pay \$52,350 in restitution, \$350 in fines and \$26,538 in damages. The RRB will recover an additional \$115,579 in overpayments as a result of OIG investigations of retirement benefit programs.

OI routinely receives referrals from the RRB's Debt Recovery Division that involve the fraudulent negotiation of RRB retirement benefit checks, usually by a relative of a deceased annuitant.

Examples of recent retirement cases follow.

- The RRB's Debt Recovery Division forwarded information to OI concerning retirement annuity benefits totaling \$14,470 that were paid via electronic funds transfer to an annuitant for nine months following his death. The agency had requested a repayment from the bank in which the funds were deposited, but only \$1,615 was returned via reclamation. Bank officials stated the remaining funds were unavailable, but that there was a joint bank account holder.

OI investigation revealed that the annuitant's stepdaughter was responsible for withdrawing the funds after the annuitant's death. When interviewed by OI and FBI special agents, she admitted to withdrawing \$12,855 from the account. She stated that her stepfather had pre-signed a series of personal checks before he died, and she had made herself the payee. At that time, she was an administrative manager at a sheriff's office. She also claimed that she had notified the RRB and the bank of her stepfather's death, and provided the

agents with copies of the letters. However, the RRB and the bank had no record of such letters.

On March 18, 2003, the stepdaughter was indicted by a Federal Grand Jury for violation of Title 18, §641, Theft of Government Funds (a felony). On September 18, a superseding criminal information was filed against her for violating Title 18, §641, Theft of Government Funds (a misdemeanor). On March 8, 2004, she was sentenced to one year probation and ordered to pay restitution of \$12,855 to the RRB and a special assessment fee of \$25. Both the restitution and fee have been paid. Based on the guilty plea to the information, the U.S. Attorney's Office dismissed the original indictment charge against the subject.

- In this case referred to OI by the agency's Debt Recovery Division, the RRB had issued \$11,043 in monthly annuity benefit payments via electronic funds transfer for 13 months after an annuitant's death. The RRB had requested a repayment from the bank through a U.S. Treasury reclamation. The bank replied that the funds were not available in the account, and that the annuitant's daughter was a joint bank account holder.

OI investigation determined that the daughter was responsible for the withdrawal of the annuity benefits. When interviewed by special agents, the daughter admitted she had withdrawn the funds to pay for personal obligations that she had incurred.

A criminal information was filed in the Northern District of California against the subject for violating Title 18, §641, Theft of Government Funds. She pleaded guilty to the information, and was sentenced to one year probation, and ordered to pay restitution of \$11,043 to the RRB in monthly installments of \$100 beginning in March 2004. She was also ordered to pay a special assessment of \$25 to the U.S. District Court.

- OI initiated an investigation of an RRB retirement annuitant who allegedly was self-employed and earning in excess of retirement limitations while receiving RRB administered retirement benefits. The investigation identified the annuitant as the sole proprietor of both a roofing company and a cattle company. He had earned \$23,300 in calendar year 2000 and \$45,505 in 2001, but failed to report his earnings over the exempt amount to the RRB, as

required under the Railroad Retirement Act. When interviewed by OI special agents, the subject admitted he had failed to report his self-employment earnings, as required.

In October 2003, he entered into a Civil Settlement Agreement with the U.S. Attorney's Office in the southern district of Texas and issued a cashier's check for \$11,871, the benefits to which he was not entitled, to the U.S. Department of Justice. The monies were then forwarded to the RRB.

- The RRB's Debt Recovery Division referred a case to OI that indicated that an RRB widowed annuitant had failed that she had remarried to the RRB, resulting in an overpayment of \$55,129 in RRB benefits.

OI investigation disclosed that a widowed annuitant had applied for and received various RRB annuities on behalf of her dependent daughter between 1978 and 1981. During this time period, she received various notifications of the requirement to report any remarriage to the RRB. On March 21, 1985, she completed an application for a widow's annuity, and agreed to immediately notify the RRB if she remarried. On June 18, the subject attained the age of 60 and began receiving her annuity. Two weeks later she remarried but did not notify the RRB.

In 1999, the subject's daughter contacted the RRB's Newark District Office to inquire about her mother's Social Security benefits. During the conversation, she stated her mother had remarried. When OI special agents attempted to interview the annuitant, her attorney declined the interview. He stated that the subject did not fully comprehend the information in the application for a widow's annuity.

The subject later pleaded guilty to one count of a violation of Title 18, U.S.C. §641, Theft of U.S. Monies. She remitted \$55,129 to the RRB, the full amount of the overpayment in the case. A Judgement in a Criminal Case was entered against her by the U.S. District Court of New Jersey, and she was sentenced to six months home confinement, one year of probation, and was ordered to pay a \$1,000 fine and a special assessment fee of \$100.

- The RRB's Debt Recovery Division referred another case to the OI that indicated that an RRB widowed annuitant had died in June 2000. The agency

had continued to issue funds via electronic funds transfer for another year, resulting in an overpayment of \$14,667. Although a reclamation was conducted, no funds were recovered. The bank that received the funds identified the annuitant's son as the person who withdrew the monies using an ATM.

When OI special agents attempted to locate the son at his last known address, they determined the residence was occupied by his half sister who stated that she had not seen her half brother for some time and had no current address for him. Further investigation revealed that she, in fact, was the individual responsible for the withdrawals from her deceased mother's account. When interviewed, she admitted to withdrawing the RRB funds. She entered into a settlement agreement with the U.S. Attorney's Office in the eastern district of Pennsylvania and agreed to make full restitution of \$14,667 with monthly restitution payments of \$250.

- A referral to OI indicated the RRB had not received immediate notification of an annuitant's death in March 1996. The agency had issued 28 annuity checks to the annuitant totaling \$30,558 from April 1996 through July 1998. The checks were sent to a residence that the annuitant shared with her daughter. Investigation revealed the daughter had died in August 1997. Seventeen checks were negotiated prior to the daughter's death and bore a second endorsement in her name. Eleven checks were negotiated after the daughter's death.

OI special agents then obtained finger/palm prints from the annuitant's grandson and his wife, and requested a forensic examination of the checks. A comparison identified the grandson's prints on two checks and his wife's fingerprints on one check. The agents attempted to interview the couple about negotiating the checks and to obtain handwriting samples, but were informed all communications should be made through their attorney.

The U.S. Attorney's Office in the Northern District of Georgia negotiated a Pretrial Diversion Agreement with the couple for violation of Title 18, U.S.C. §641, Theft of Government Funds. They are required to make restitution jointly in the amount of \$12,192 over a 30 month period to the RRB. This amount represents the total overpayment for the 11 checks forged and negotiated following the daughter's death. Based on the facts available, the

daughter had forged and negotiated the remaining 17 checks prior to her death.

## **Unemployment and Sickness Insurance Investigations**

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages from an employer, in violation of Federal law. OI receives the majority of these cases for followup investigation from the RRB's Disability, Sickness and Unemployment Benefits Division as a result of information developed from state wage matching programs. These programs match RRB annuitants with individuals who earned compensation in each state.

During this reporting period, OI obtained ten convictions and 14 civil judgements for UI and SI fraud. Defendants in these cases received, in the aggregate, one year imprisonment, 31 years probation and six months house arrest. They were ordered to pay \$51,838 in restitution, \$88,348 in damages, \$1,950 in fines, and \$46,915 in civil penalties. The RRB will also be able to recover an additional \$51,233 as a result of OI investigations.

Examples of cases completed this reporting period follow.

- A state wage computer match with the State of Minnesota resulted in two referrals to OI concerning annuitants claiming sickness and unemployment insurance benefits while working.

While employed as a maintenance technician for a property management company in Fargo, North Dakota, one annuitant filed 14 false claims with the RRB's St. Paul, Minnesota District Office. He falsely certified that he did not work on days for which he claimed benefits.

The U. S. District Court in Minneapolis filed a consent judgement against the subject ordering him to pay the principal amount of \$9,050. This amount includes single damages of \$4,450 doubled to \$8,900, plus court costs of \$150. The court also ruled that post-judgement interest at the legal rate from the date of the judgement be paid in full. The RRB will receive the original

overpayment amount of \$4,450 and the interest pertaining to this sum. The remaining funds will be paid to the U.S. Department of Justice.

The second annuitant was employed at three different companies while receiving unemployment benefits from the RRB. She submitted 14 false claims and received \$5,198 in benefits. A default judgement was obtained against the woman for violating 31 U.S.C, §3729-31, False Claims Act in the amount of \$21,244. The RRB will receive the \$5,198 that the agency paid the subject while she was employed, and the Department of Justice will receive the remaining \$16,046 which includes \$150 in court costs. The subject will also be required to pay post judgement interest of 1.28% per annum.

- A wage match with the States of New Mexico and Arizona identified another annuitant who had received wages while claiming RRB unemployment insurance benefits. The subject had filed 19 false claims with the RRB's Albuquerque, New Mexico District Office, and had received \$6,376 in unemployment benefits to which he was not entitled. He was employed at a roofing company in Mesa, Arizona on the days claimed.

The U. S. District Court in Phoenix filed a default judgement against the annuitant ordering him to pay \$24,628 (single damages of \$6,376 tripled to \$19,128 plus a penalty amount of \$5,500). He was also ordered to pay post-judgement statutory interest. The RRB will receive the overpayment amount of \$6,376, and the related interest.

- A matching program in Pennsylvania indicated that an annuitant collected unemployment insurance benefits on the same days he worked for three private employers. Subsequent investigation revealed that the subject had submitted 13 false claims to the RRB from November 6, 2000 through October 6, 2001, resulting in the theft of \$5,552 in benefits. When interviewed, the subject provided a written statement agreeing to make full restitution to the RRB. He entered into a settlement agreement with the U.S. Attorney's Office and will make restitution of \$9,774 (the amount of benefits plus \$4,222 in administrative fraud penalties) to the RRB.

## Disability Investigations

The OIG also conducts fraud investigations relating to the RRB's disability program, which typically involves larger financial amounts and more sophisticated schemes. An individual who receives a disability annuity is restricted to earning not more than \$400 in one month. An earnings cap of \$4,999 per year also applies. Disability annuitants must report all work activity to the RRB.

During this reporting period, OI obtained five criminal convictions and one civil judgement for disability fraud. Defendants in these cases were collectively sentenced to two years, one day imprisonment, 1½ years house arrest, 16 years probation, and ordered to perform 350 hours of community service. In addition, they were ordered to pay \$281,666 in restitution, \$27,219 in damages, \$54,438 in penalties, and \$4,275 in fines. The RRB will recover \$41,039 as a result of OI disability-related investigations.

Representative cases are described below.

- A disability wage match with the State of New York identified an annuitant who had been self-employed during 1995-1997, and had failed to report his income to the RRB as required. An overpayment of \$61,588 was developed.

A review of his claim file disclosed that the annuitant initially applied for a disability in January 1996, but failed to disclose any self-employment during the application process. He was subsequently awarded a disability annuity retroactive to January 1, 1995. In April 1999, in response to inquiries by the

RRB's Buffalo District Office, he completed a Continuing Disability Report indicating self-employment but stated no income was taken from the business. However, he also submitted partial copies of his income tax returns that contradicted his assertion concerning income from the business. After the disability wage match identified the subject, OIG special agents interviewed him and he admitted that he did, in fact, have unreported income and would cooperate in the repayment of any funds owed.

The subject subsequently pleaded guilty to one count of Making a False Statement, 18 U.S.C. §1001(a)(3). He was ordered to make restitution totaling \$61,588 to the RRB and was sentenced to 12 months and one day of imprisonment and two years of supervised release. He was also ordered to pay a fine of \$4,000 and a \$100 assessment fee.

- A wage matching program with the State of Kentucky identified a disability annuitant who failed to report his employment with a variety of employers while claiming and receiving RRB disability benefits. The OIG initiated an investigation and determined that the subject had worked for three non-railroad employers, and had earned \$5,862, \$13,414, and \$15,815 during calendar years 1997-1999, respectively. In order to conceal his earnings from one employer, he had used a different social security number.

When interviewed by OI special agents, the annuitant admitted he had concealed his wages in order to continue to receive his RRB disability benefits. He had received \$27,219 in benefits to which he was not entitled. In September 2003, the U.S. Attorney's Office in the Eastern District of Kentucky filed a civil complaint against the subject for violation of the False Claims Act, 31 U.S.C. §3729-33, that alleged that he had wages that exceeded the earnings limitations. He did not respond to the complaint and a default judgment for \$81,657 representing treble damages was then entered against the annuitant. The RRB is entitled to receive \$27,219, with the remaining monies to be paid to the U.S. Department of Justice.

- The RRB's Audit and Compliance Division referred a case involving an occupational disability annuitant who was allegedly employed full-time by a major railroad and receiving disability benefits. When interviewed by OI and FBI special agents, the annuitant indicated that he had returned to work for the railroad, and was employed from July 1997 through October 2001. He

also stated that he did not know that he was also collecting RRB disability benefits during that time period. He stated that his wife handled all the financial matters for the household, and denied any knowledge that he had been receiving a disability annuity for the four year period.

The special agents then interviewed the wife who provided them with two letters, dated 1997 and 1998, that she had allegedly sent to the RRB to inform the agency that her husband had returned to work for the railroad. A closer examination of the letters showed that the 1998 letter had been impressed upon the letter dated in 1997, indicating that both letters may have been prepared at the same time. When asked, the annuitant's wife could not remember when the letters were prepared, or if she had actually mailed them to the RRB. She finally admitted that she had continued to receive her husband's disability benefits after he returned to work, but did not tell him that she was receiving his benefits.

She was indicted by a Federal Grand Jury for violation of Title 18, U.S.C. §641, Theft of Government Funds. She pleaded guilty and was sentenced to six months in prison, to be followed by six months of home confinement with electronic monitoring. She will then serve probation of three years. She was also ordered to pay full restitution of \$95,079 to the RRB.

- A state wage match with the State of Georgia indicated an annuitant had exceeded the annual earnings limitation for occupational disability in 2000 and 2001 by working for a freight company, a security services firm and an armored car service.

OI agents reviewed the annuitant's RRB claim file and determined he had concealed his actual monthly earnings by providing ambiguous responses to questions about his hours and wages. When interviewed by the agents, the annuitant admitted he was aware of the earnings restrictions and had not accurately reported his income to the RRB. He provided a written statement in which he acknowledged the illegal receipt of disability benefits and agreed to make restitution for the overpayment of \$35,145.

On December 2, 2003, he pleaded guilty to one count of Title 45, U.S.C. §231I, Failure to make a report or furnish information required by the RRB. He was sentenced to five years of probation, six months of home confinement,

150 hours of community service, ordered to make full restitution to the RRB, and pay a \$25 special assessment to the U.S. Department of Justice.

- OI initiated a project to identify RRB disability annuitants who may be concealing employment and income under corporations established in the State of Georgia. Special agents reviewed an annuitant's disability application that indicated that he had filed for an annuity in September 1998 and was awarded a disability retroactive to July 1, 1998. He was rated as occupationally disabled due to alcohol induced cardiomyopathy, and that he could not perform his past railroad job as an engineer that required lifting of up to 100 pounds.

Investigation determined that the annuitant was listed as the registered agent and secretary for a marine construction company as well as having involvement in an office supply firm. He and his girlfriend had, in fact, created two corporations. Agents established that he also constructs boat docks and ramps, installs boat lifts and constructs retaining walls. Witnesses stated that he performs the work himself or with minimal help.

When interviewed by special agents, the subject stated that his girlfriend owned and operated the two businesses and that he served only as a consultant. The girlfriend, in a separate interview, also stated that the annuitant did not work. However, investigation showed he was actively involved in both businesses that generated net revenues of \$1 million and had profits of approximately \$210,000 during calendar years 1999-2002. He failed to notify the RRB of his earnings, as required, and had fraudulently received \$89,873 in disability benefits.

A Federal Grand Jury charged the annuitant with violation of Title 18, U.S.C. §641, Theft of Government Funds, and Title 18, U.S.C. §1001, False Statement, for claiming and receiving disability benefits while owning and operating a for-profit corporation during calendar years 1999-2002. He pleaded guilty to the theft of government funds, and the other charge was dismissed. He was sentenced to six months imprisonment, six months of home detention, 200 hours of community service, supervised release of three years, and ordered to pay restitution of \$89,873.

The annuitant's girlfriend was also indicted for providing false information to OI special agents regarding the annuitant's involvement in the businesses, a violation of Title 18, U.S.C. §1001, False Statement. She entered a plea agreement with the U.S. Attorney's Office and pleaded guilty to violating 18 U.S.C. §3, Accessory After the Fact. She was sentenced to three years probation and fined \$250.

## **AFFIRMATIVE CIVIL ENFORCEMENT (ACE) PROGRAM**

OI continues to pursue prosecution of cases under the Department of Justice's Affirmative Civil Enforcement Program. This program involves "fast track" civil prosecution of cases under the provisions of the Title 31, U. S. Code, Sections 3729-3733, The Civil False Claims Act. This statute allows the government to recover up to triple damages as well as \$5,000 to \$10,000 for each false claim submitted.

The Department of Justice frequently obtains double damages through these civil false claims prosecutions. The judgements obtained in these cases also provide the agency with an efficient and effective basis to pursue their collection activities.

The ACE Program continues to provide an efficient means to address fraud against agency programs, particularly where the fraud losses are below the financial guidelines for criminal prosecution. It also is an effective way to return fraud losses to the RRB's trust funds and create a deterrent against future fraud.

During this reporting period, nine civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$65,011 to the government when the funds are collected.

## HOTLINE CALLS

The Office of Inspector General established its Hotline to receive complaints concerning suspected fraud, waste and abuse in RRB programs and operations. The Hotline provides an open line of communication for individuals to report suspected criminal activity, conflict of interest, mismanagement, and waste of RRB funds.

	<u>10/01/03 - 03/31/04</u>
Total Contacts: (Telephone Calls and Letters)	663
Referred to: RRB-OIG, Office of Investigations	31
RRB Bureaus/Offices	342
Other Federal Agencies	10
RRB Medicare Carrier/Durable Medical Equipment Regional Carriers	3
Other (misdirected calls, follow-up calls to agents, etc.)	236
Calls for which there was insufficient information to substantiate an allegation or to make a referral	41

# **L E G I S L A T I V E & R E G U L A T O R Y R E V I E W**

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The Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency, and to make recommendations in the semiannual report concerning the impact on the economy and efficiency of the agency's administration of its programs and on the prevention of fraud and abuse.

During this reporting period, the agency issued a proposed regulation concerning the electronic filing of applications and claims for benefits under the Railroad Unemployment Insurance Act. The OIG advised the agency that the proposed regulation contained an unclear description of the application process. The agency subsequently revised the regulation.

# **A P P E N D I X A**

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## **REPORTS ISSUED**

- Review of the Railroad Retirement Board's Acquisition Process - Contracts for Services, October 16, 2003
- External Quality Assurance Review of the Office of Personnel Management, Office of Audit, October 16, 2003
- Audit of the Fiscal Year 2003 Financial Statements, January 23, 2004

## **A P P E N D I X B**

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### **OIG REPORTS WITH RECOMMENDATIONS THAT QUESTIONED COSTS**

No activity during this reporting period.

### **OIG REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS**

No activity during this reporting period.

## **A P P E N D I X C**

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### **REPORT ON RECEIVABLES, WAIVERS, AND RECOVERIES**

The FY 1999 appropriations language for this office requires the reporting of additional information concerning actual collections, offsets and funds put to better use achieved as a result of Inspector General activities.

#### Office of Audit

<u>Report</u>	<u>Funds to be put to better use</u>	<u>Funds Agreed by Management</u>	<u>Receivables Established</u>	<u>Waivers</u>	<u>Recoveries to date</u>
99-03	\$ 50,850	\$ 50,850	\$ 50,580	\$ 50,490	\$ 360
99-14	83,000	83,000*	34,423		30,584
99-16	48,000,000	48,000,000			
99-17	11,000,000	11,000,000			1,604,535**
00-16	235,000	235,000			253,846***

\* This figure includes monies owed to the agency and overpayments which must be refunded.

\*\* This figure represents case corrections that resulted in receivables, annuitant payments, employer tax credits and liabilities.

\*\*\*This figure represents returned payments credited to debtor accounts.

#### Office of Investigations

Recoveries realized by the RRB resulting from court-ordered restitution and civil damages:

October 1, 1998 - March 31, 1999	\$ 344,465
April 1, 1999 - September 30, 1999	\$ 511,190
October 1, 1999 - March 31, 2000	\$ 495,402
April 1, 2000 - September 30, 2000	\$ 542,732
October 1, 2000 - March 31, 2001	\$ 457,015
April 1, 2001 - September 30, 2001	\$ 533,341
October 1, 2001 - March 31, 2002	\$ 403,384
April 1, 2002 - September 30, 2002	\$ 382,459
October 1, 2002 - March 31, 2003	\$ 533,346
April 1, 2003 - September 30, 2003	\$ 414,530
October 1, 2003 - March 31, 2004	\$ 371,223

# APPENDIX D

## RRB MANAGEMENT REPORTS\*

### MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR THE SIX MONTH PERIOD ENDING MARCH 31, 2004

	<u>Number</u>	<u>Disallowed Costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	0
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period.	0	0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections	0	0
(b) Property		
(c) Other		
2. Write-offs	0	0
3. Total of 1 and 2	0	0
E. Audit reports needing final action at the end of the period.	0	0

\* The information contained in this section has been provided by RRB management.

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS  
WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE  
FOR THE SIX MONTH PERIOD ENDING MARCH 31, 2004**

	<u>Number</u>	<u>Funds to be put to better use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	2	\$ 48,529,996 *
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period.	2	\$ 48,529,996
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented.	0	\$ 0
2. Value of recommendations that management concluded should not or could not be implemented.	0	\$ 0
3. Total of 1 and 2.	0	\$ 0
E. Audit reports needing final action at the end of the period.	2	\$ 48,529,996

\* Comprised of the following amounts: \$48,000,000 from Audit Report 99-16, "Financial Interchange: Status of Prior Recommendations for Change;" and \$529,996 from Audit Report 01-11, "Review of the Quality of the Debt Recognition and Collection Process for Railroad Retirement Act Overpayments."

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 2004**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Quality Assurance Activities (97-06)	1/22/97	None	None	The remaining recommendation will be addressed as the agency develops a long-term approach to program integrity and quality assurance.
Review of Non-Priority Correspondence Handling (97-09)	3/13/97	None	None	The remaining recommendation will be addressed by the end of fiscal year 2004 after conversion to new imaging software.
Review of Computer Problem and Change Management Process (99-05)	2/21/99	None	None	The Bureau of Information Services has developed a service-level agreement and other procedures to close out the last recommendation in fiscal year 2004.
Review of Railroad Unemployment Insurance Act Contributions (99-14)	9/21/99	None	None	The agency has completed programming changes to automate the reconciliation process and provided supporting information to the Department of the Treasury.
Financial Interchange: Status of Prior Recommendations for Change (99-16)	9/28/99	None	\$48,000,000	The agency has provided information to the Social Security Administration and is awaiting a decision on the method for reflecting unrecovered overpayments in Financial Interchange calculations.
Information Systems Security (INFOSEC) Assessment Report	6/28/00	None	None	The agency has implemented 12 recommendations, and is working to close out the remaining 3.
Review of Information Technology Contracts (00-15)	9/06/00	None	None	A draft post-implementation review of upgrades to the agency's wide-area network has been submitted to the agency's IT Steering Committee.
Review of Document Imaging - Railroad Unemployment Insurance Act Programs (01-01)	11/17/00	None	None	The agency hopes to close the remaining recommendation in fiscal year 2004 as part of a phased approach to enhancing network server backup capabilities.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 2004**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Audit of the RRB's FY 2000 Financial Statements (01-03)	2/23/01	None	None	The Bureau of Information Services will address the last recommendation on problem reports pending available funds.
Timeliness of Desk Audit and Vacancy Announcement Processing by the Bureau of Human Resources (01-08)	6/28/01	None	None	The Bureau of Human Resources will start reporting performance data using a recently developed tracking system.
Site Security Assessment for the RRB	7/20/01	None	None	The Bureau of Information Services has closed out 10 recommendations, and is in the process of addressing the last 2.
Review of the Quality of the Debt Recognition and Collection for RRA Overpayments (01-11)	8/09/01	None	\$ 529,996	The Office of Programs finished a quality assurance review of certain debts and hopes to issue findings by the end of fiscal year 2004.
Security Controls Analysis for the Office of Inspector General	8/17/01	None	None	The Bureau of Information Services has closed 32 recommendations and is currently addressing the remaining 6.
Review of Information Security at the Railroad Retirement Board (02-04)	2/05/02	None	None	The Bureau of Information Services has closed 14 recommendations and is currently addressing the remaining 14.
FY 2002 Evaluation of Information Security at the RRB (02-12)	8/27/02	None	None	The agency is updating its disaster recovery plans, and this item will remain open until all contractual activities have been performed once and reviewed by the Office of Inspector General.
Effectiveness of the RRA Quality Assurance Program in Estimating Exposure to Improper Payments (03-01)	6/28/01	None	None	The Office of Programs is developing the necessary methods, controls and skills to assess improper payments in order to close the remaining recommendations.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 2004**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Evaluation of the Self-Assessment Process for Information System Security (03-02)	12/27/02	None	None	The Bureau of Information Services is devising procedures for system security assessments, including use of automated software tools.
Evaluation of RRB E-government Initiative: RUIA Contribution Interest Reporting and Payment (03-03)	12/27/02	None	None	The Bureau of Fiscal Operations is in the process of developing a revised MOU with Treasury's Financial Management Service to close out the two remaining recommendations.
Review of the RRB's Progress in Meeting Selected Federal Financial Management Requirements (03-04)	3/18/03	None	None	The agency will determine compliance with financial management guidelines as part of its management control review process to address the remaining open recommendation.
Inspection of Unverified Records in the RRB's Employment Data Maintenance System	3/20/03	None	None	The Office of Programs is developing procedures to verify data reported by employers for individual railroad workers.

# **A P P E N D I X E**

## **REPORTING REQUIREMENTS**

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Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented	9
Section 5(a)(4) - Matters Referred to Prosecutive Authorities	17
Section 5(a)(5) - Instances Where Information Was Refused	None
Section 5(a)(6) - List of Audit Reports	34
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Section 5(a)(8) - Statistical Tables on Management Decisions on Questioned Costs	35
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Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old For Which No Management Decision Has Been Made	None
Section 5(a)(11) - Description and Explanation for Any Significant Revised Management Decision	None
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### **Management Requirements**

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# **REPORT**

## **FRAUD, WASTE AND ABUSE**



**Call the OIG Hotline:  
1-800-772-4258**

**E-mail: [Hotline@oig.rrb.gov](mailto:Hotline@oig.rrb.gov)**

The OIG cannot ensure confidentiality to persons who provide information via e-mail. Do not send information by e-mail that you do not want a third party to read.

**Write: RRB-OIG Hotline Officer  
844 North Rush Street  
Chicago, IL 60611-2092**